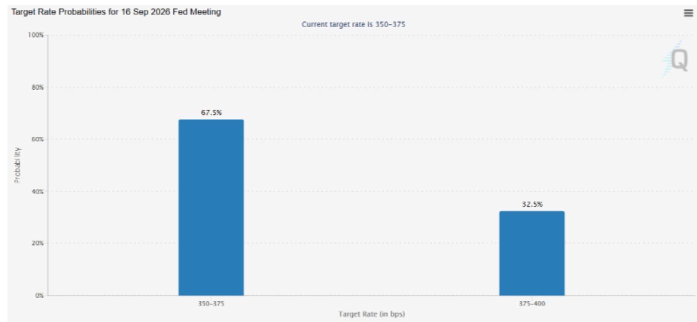
Neil Dutta – Head of Economics

Will doves win battle but lose the war?

Monday, August 17, 2026

The bar is still low

The bar to a rate hike remains low despite last week's inflation data. Importantly, so long as core inflation remains above two percent with the unemployment rate below the Fed's longer-run estimate of neutral, it is difficult to see why the Fed will entertain interest rate cuts. All the market can really price is an extended hold or a catch-up where the Fed must hike more aggressively later.

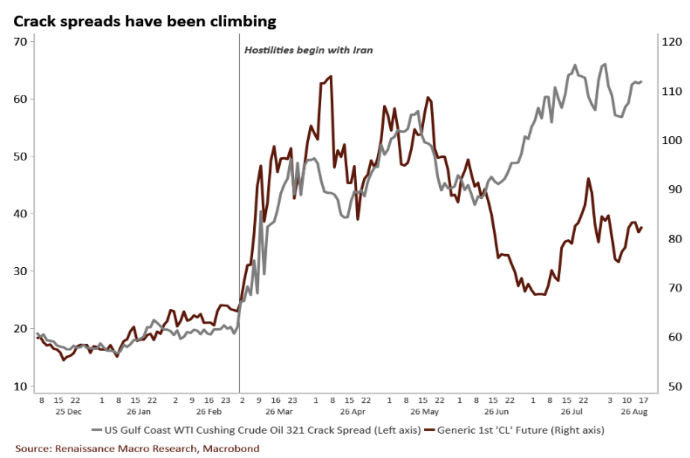


TARGET RATE (BPS)	PROBABILITY(%)			
	NOW *	1 DAY 14 AUG 2026	1 WEEK 7 AUG 2026	1 MONTH 16 JUL 2026
350-375 (Current)	67.5%	66.9%	55.6%	47.6%
375-400	32.5%	33.1%	44.4%	47.0%
400-425	0.0%	0.0%	0.0%	5.4%

The three-point checklist

The minutes of the June FOMC laid out a three-point checklist that would require some policy firming to return inflation to two percent: (1) the conflict in the Middle East, (2) AI-related demand, and/or (3) the effects of tariffs. The latest news doesn't exactly send the most encouraging signals in this regard.

Ultimately, what matters for households is the price they're paying for refined products. While the price of WTI crude is essentially flat since the middle of June, the 3-2-1 crack spread is up roughly $20 per barrel, which implies the price of products refined from a barrel of WTI is still going up, not down. Thus, I'd argue that there is room for energy to push up inflation in August after holding it down in June and July.



Next, there is no evidence that demand for AI is slowing down. If anything, the AI capex complex has developed an internal credit mechanism that can arguably keep going even if the Fed tightens policy. Put differently, the marginal dollar of AI capex is increasingly financed inside the AI ecosystem. Keep it simple: the relative performance of technology stocks remains strong.

There is little evidence that AI is yielding much of a positive supply shock either. From the Federal Reserve Bank of San Francisco: "Over the past four quarters ending in the second quarter of 2026, Total Factor Productivity grew at a rate of 1.1% and Utilization-adjusted Total Factor Productivity fell at a rate of -0.42%." The fact that utilization-adjusted TFP is contracting is a sign that technological change is not a driver of productivity right now.

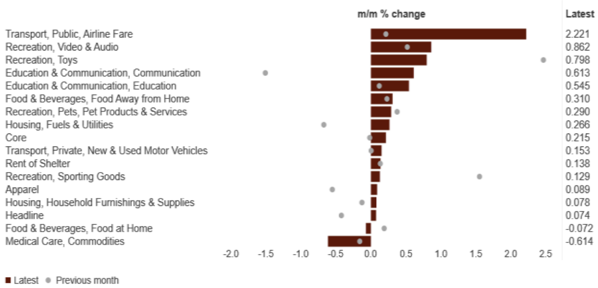
Lastly, the latest CPI data were mixed on whether the pressure from tariffs is fading. Prices for non-IT core commodities generally strengthened in the most recent month. Recreation commodities (toys, AV products), apparel, and household furnishings all rose in July. Thus, it might be premature to conclude that there are no additional tariff-induced price increases in the pipeline, and the administration continues to send signals that effective tariff rates are likely to move up in the coming year.

The recent decline in the USD has our attention too not only because it implies upward pressure on the prices for imported consumer goods but also because it undercuts the notion that markets are doing the Fed's job for it.

In short, based off these three-factors, there is not much evidence that inflation is about to cooperate "soon."

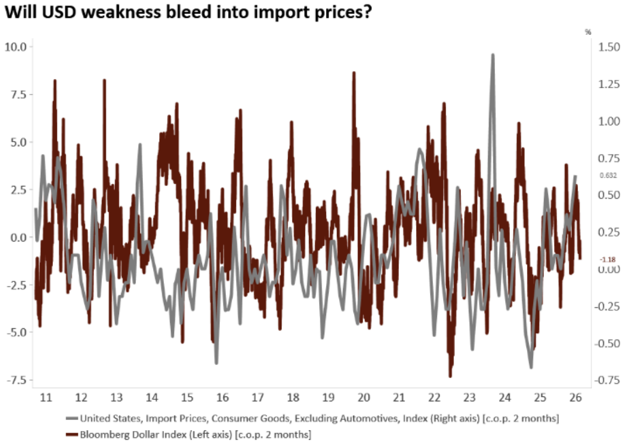
Monthly change in CPI inflation by select category

SA, %; grey dots indicate previous month values



Source: Renaissance Macro Research, Macrobond, BLS

Will USD weakness bleed into import prices?

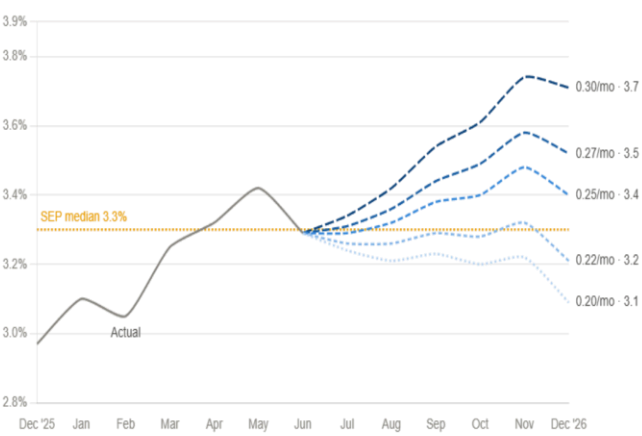


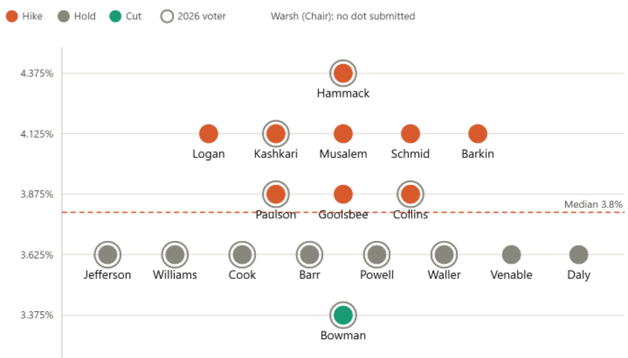
Source: Renaissance Macro Research, Macrobond

Tayloring policy

In the absence of a reaction function, using traditional policy rules is the next best option. Again, in this regard, it is hard to see the hawks thinking anything has materially changed.

Unemployment is already running 0.2ppt below the SEP median for 2026. Core inflation is expected to be 3.3 percent. That seems like a high bar to clear. Indeed, consensus for core PCE in July is 0.22 percent. If that continues through year-end, you hit the Fed estimate of 3.3 percent Q4/Q4. But, if core PCE averages 0.25%, core PCE climbs to 3.4 percent Q4/Q4. We're really just a small forecast miss away from hikes.





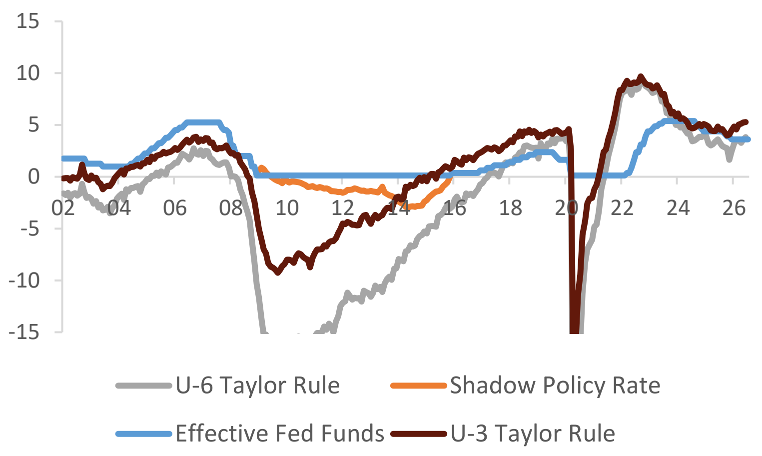
Speculative attribution. 18 of 19 participants submitted 2026 dots. Rings denote 2026 FOMC voters.

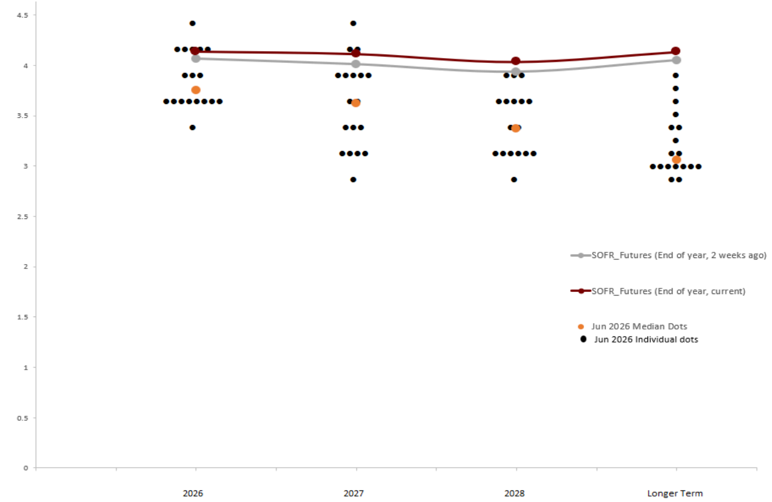
Inertia decays to a hike

So, if you're a hawk on the FOMC, what should we anticipate?

At the moment, there are six officials that see multiple rate hikes this year. If we don't see a hike by September, I would expect these officials to pencil in one hike for the year but start to push more of these hikes into 2027. For the rest of the FOMC, namely the Board of Governors that don't see any action this year, they'll have to ask themselves how long they're willing to tolerate inflation above two percent without doing anything about it. I feel like that position ultimately decays toward a hike or two.

Monetary metrics





Hawks and Doves

Governors

Jefferson, Barr, Cook, Powell, Waller, **Warsh**, Bowman

Hawkish ←→ **Dovish**

Williams*

Regional Fed Presidents

2026 Voters: Hammack, Logan, Kashkari, Paulson

2027 Voters: Venable, Barkin, Goolsbee, Daly

2028 Voters: Schmid, Musalem, Collins

*Federal Reserve Bank of NY President always votes
Boxed individuals represent FOMC core

FOMC Forecasts	Median				Central Tendency			
	2026	2027	2028	Longer run	2026	2027	2028	Longer run
Change in real GDP	2.2	2.3	2.2	2	2.0–2.3	2.0–2.4	2.0–2.3	1.8–2.0
March projection	2.4	2.3	2.1	2	2.2–2.5	2.0–2.4	2.0–2.3	1.8–2.0
Unemployment rate	4.3	4.3	4.2	4.2	4.3–4.4	4.2–4.5	4.1–4.3	4.0–4.3
March projection	4.4	4.3	4.2	4.2	4.3–4.5	4.2–4.4	4.0–4.4	4.0–4.3
PCE inflation	3.6	2.3	2	2	3.5–3.7	2.2–2.5	2.0–2.1	2
March projection	2.7	2.2	2	2	2.6–3.1	2.0–2.3	2	2
Core PCE inflation4	3.3	2.5	2.1		3.2–3.5	2.3–2.6	2.0–2.2	
March projection	2.7	2.2	2		2.5–2.8	2.0–2.4	2	
Projected policy path								
Fed funds rate	3.8	3.6	3.4	3.1	3.6–4.1	3.1–3.9	3.1–3.6	3.0–3.5
March projection	3.4	3.1	3.1	3.1	3.1–3.6	2.9–3.6	2.9–3.6	2.9–3.5

Indicator		Aug-26	Jul-26	Jun-26	May-26	Apr-26	Mar-26	Feb-26	Jan-26	Dec-25	Nov-25	Oct-25	Sep-25
Manufacturing/Output													
ISM Manufacturing (actual)	Level												
ISM Services (actual)	Level												
Industrial Production	y/y												
Capacity Utilization	Level												
Durable Goods	y/y												
Durable Goods ex Tran	y/y												
Markit Services PMI	Level												
Markit Mfg PMI	Level												
Employment													
Jobless Claims (4 Wk Avg) (R)	Level												
ADP Employment	MoM												
Nonfarm Payrolls	MoM												
Average Hourly Earnings	y/y												
Average Weekly Hours	Level												
Unemployment Rate (R)	Level												
Housing													
Building Permits	Level												
Housing Starts	Level												
New Home Sales	Level												
Existing Home Sales	Level												
NAHB Homebuilder Index	Level												
Case-Shiller 20 Market Price	y/y												
Inflation													
CPI	y/y												
Core CPI	y/y												
PPI	y/y												
Core PPI	y/y												
Core PCE	y/y												
Consumer													
Michigan Confidence	Level												
Personal Income	y/y												
Retail Sales	y/y												
Auto Sales	Level												
Conference Board Consumer Confidence	Level												

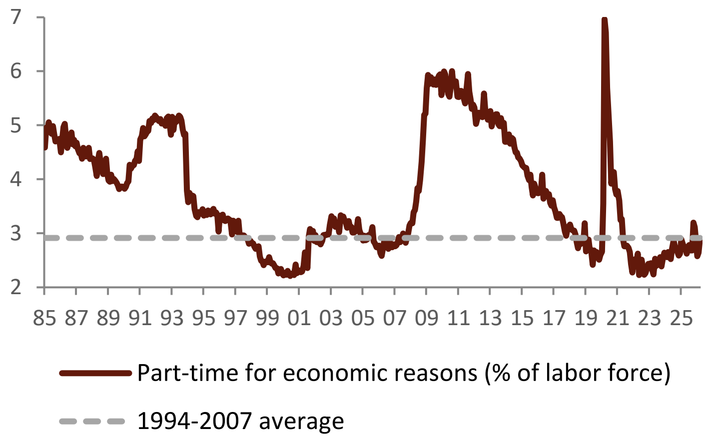
Notes

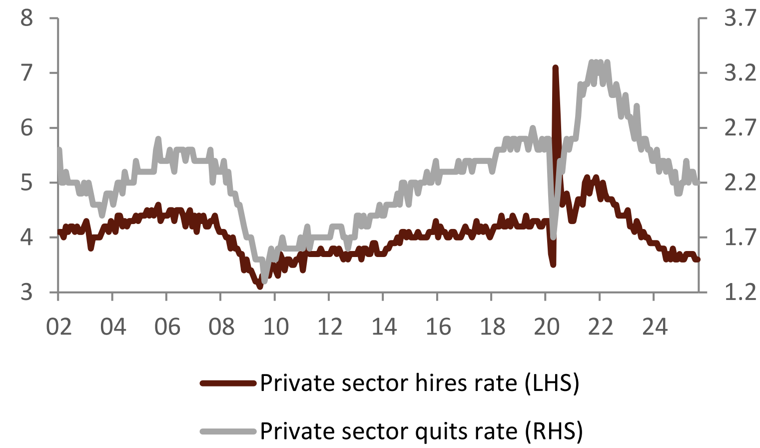
R - Reverse Formatting

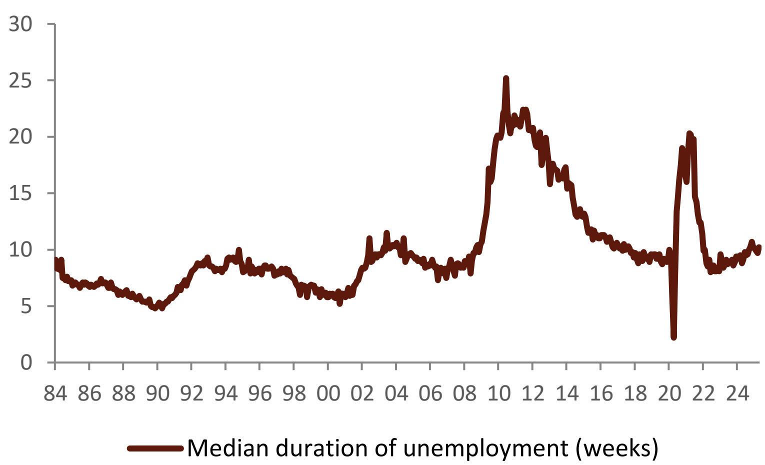
Deciles are based on expanding window since 2001

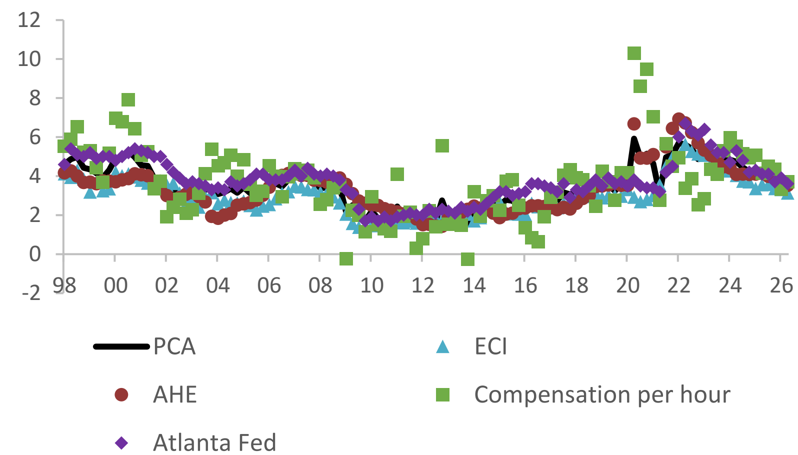
Highest decile									Lowest decile
10	9	8	7	6	5	4	3	2	1

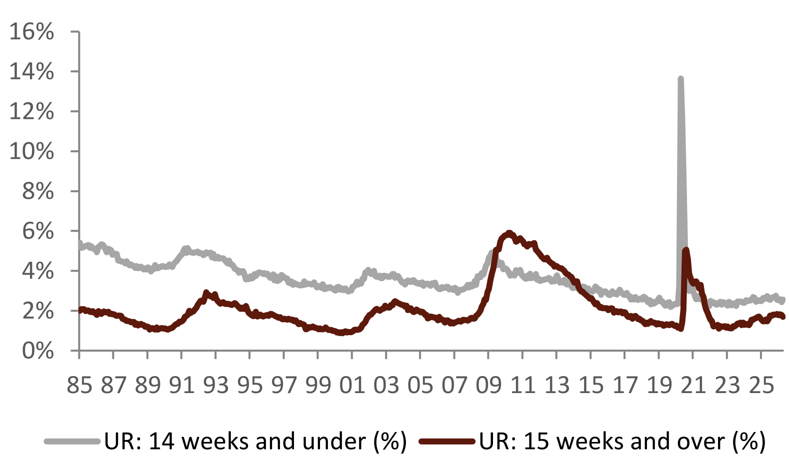
Labor market indicators

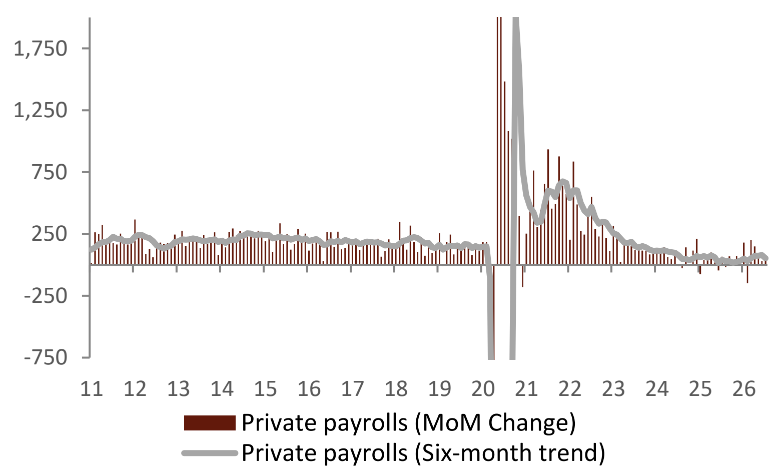












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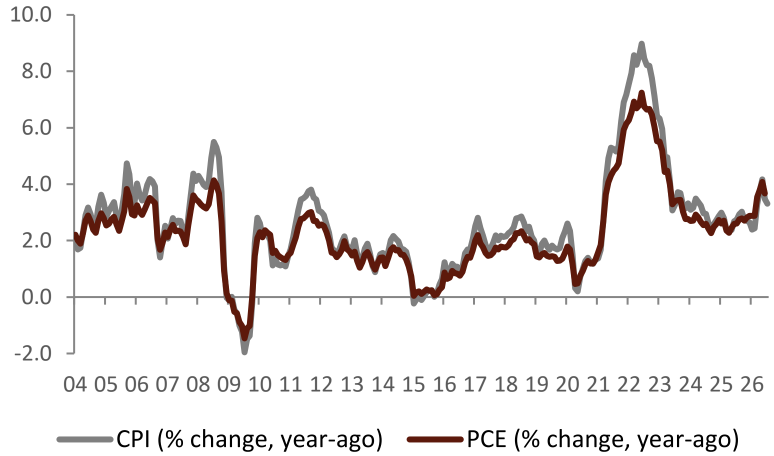
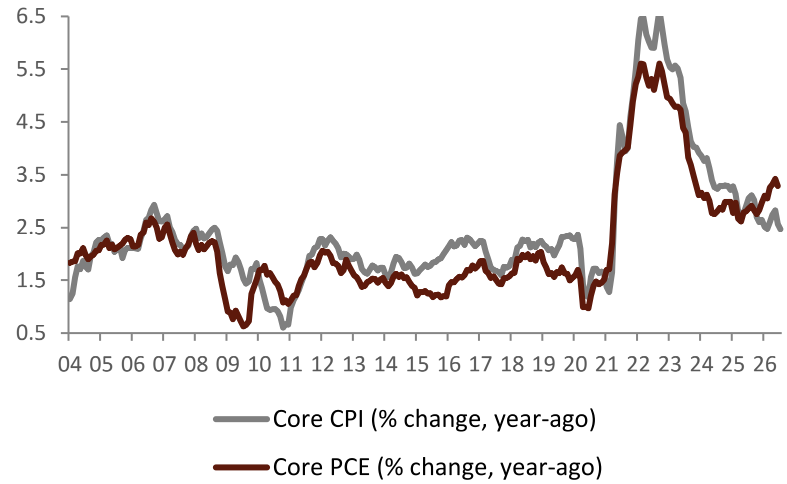
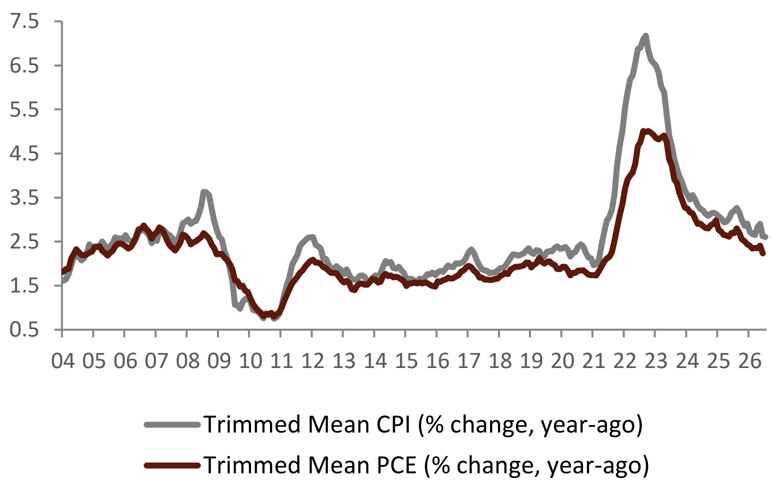
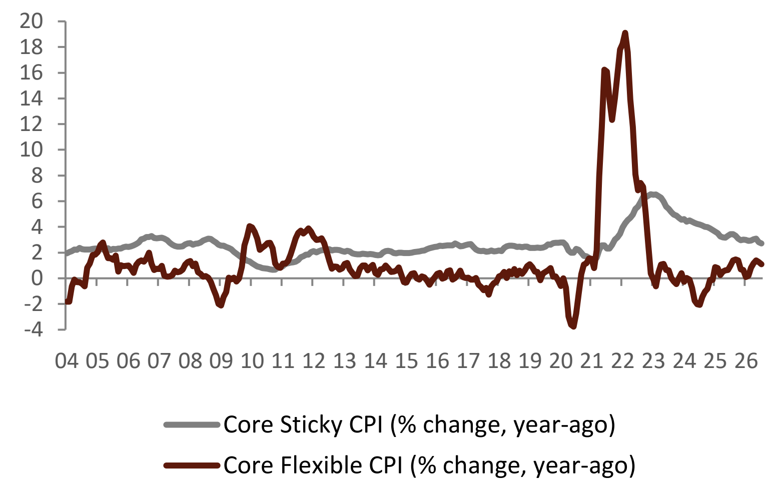
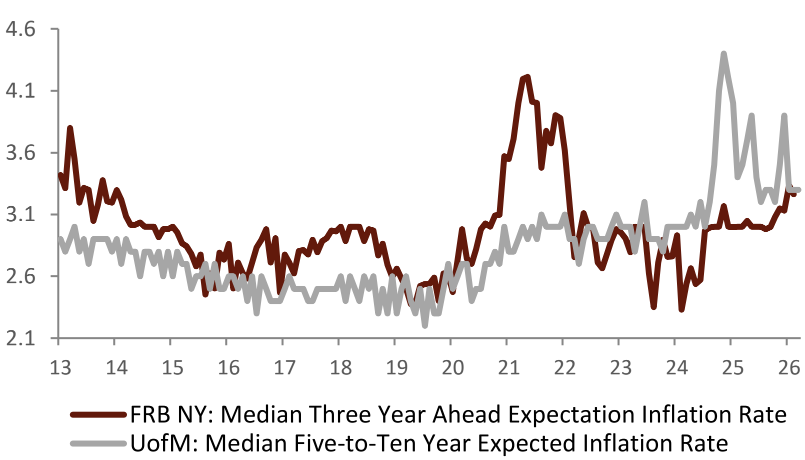
Inflation indicators

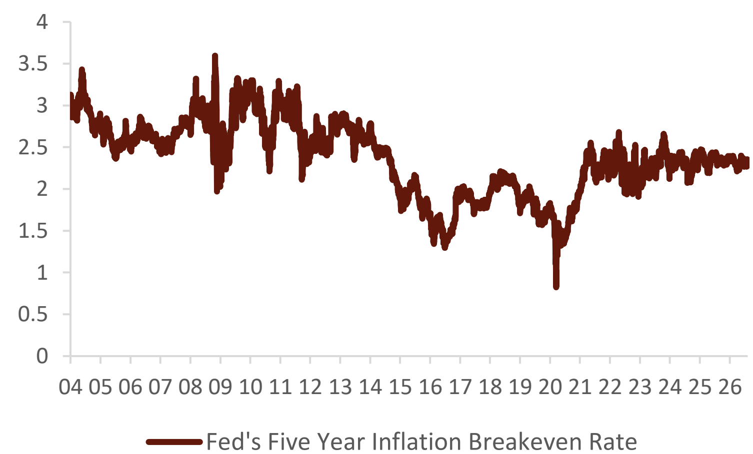




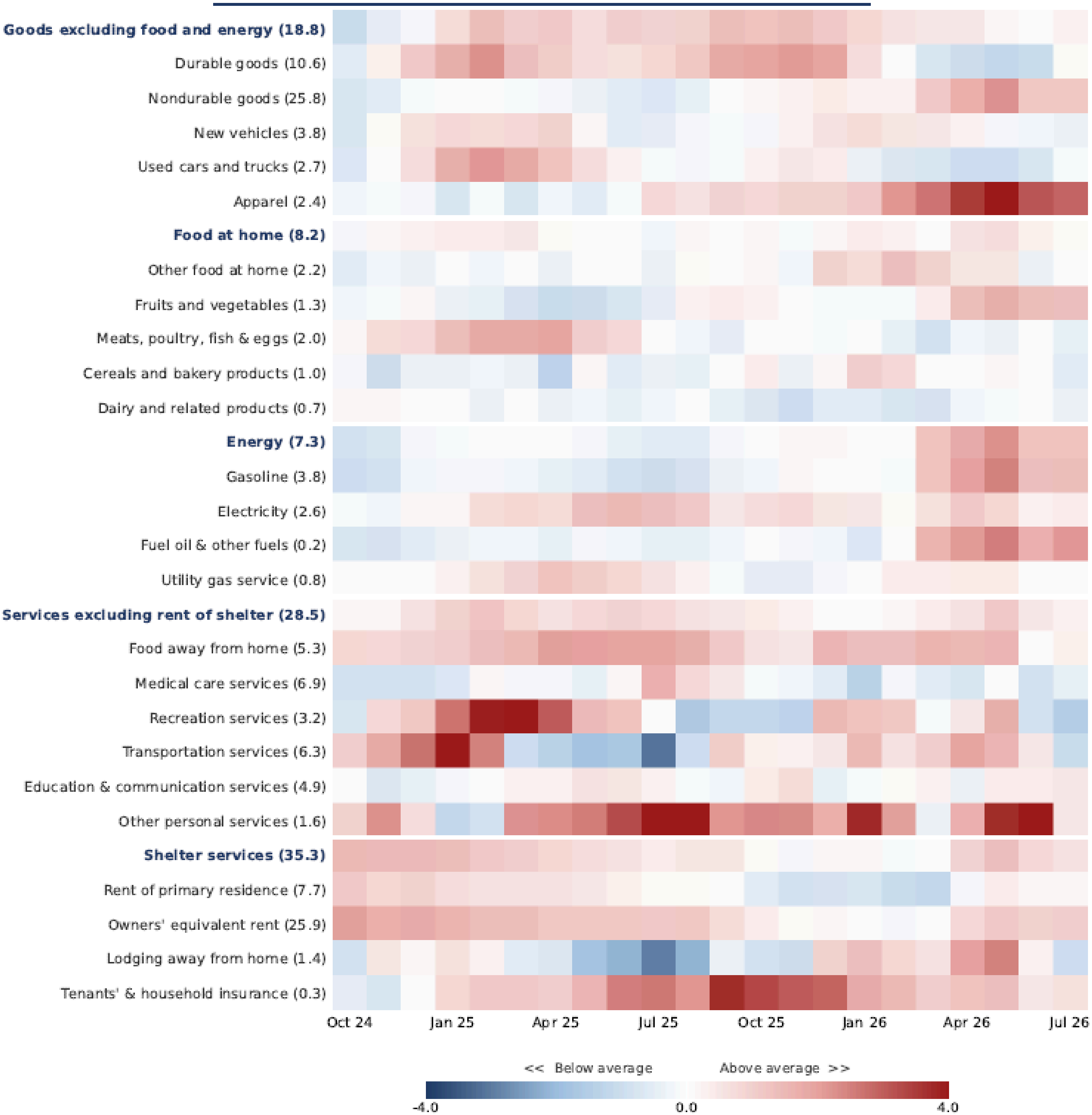






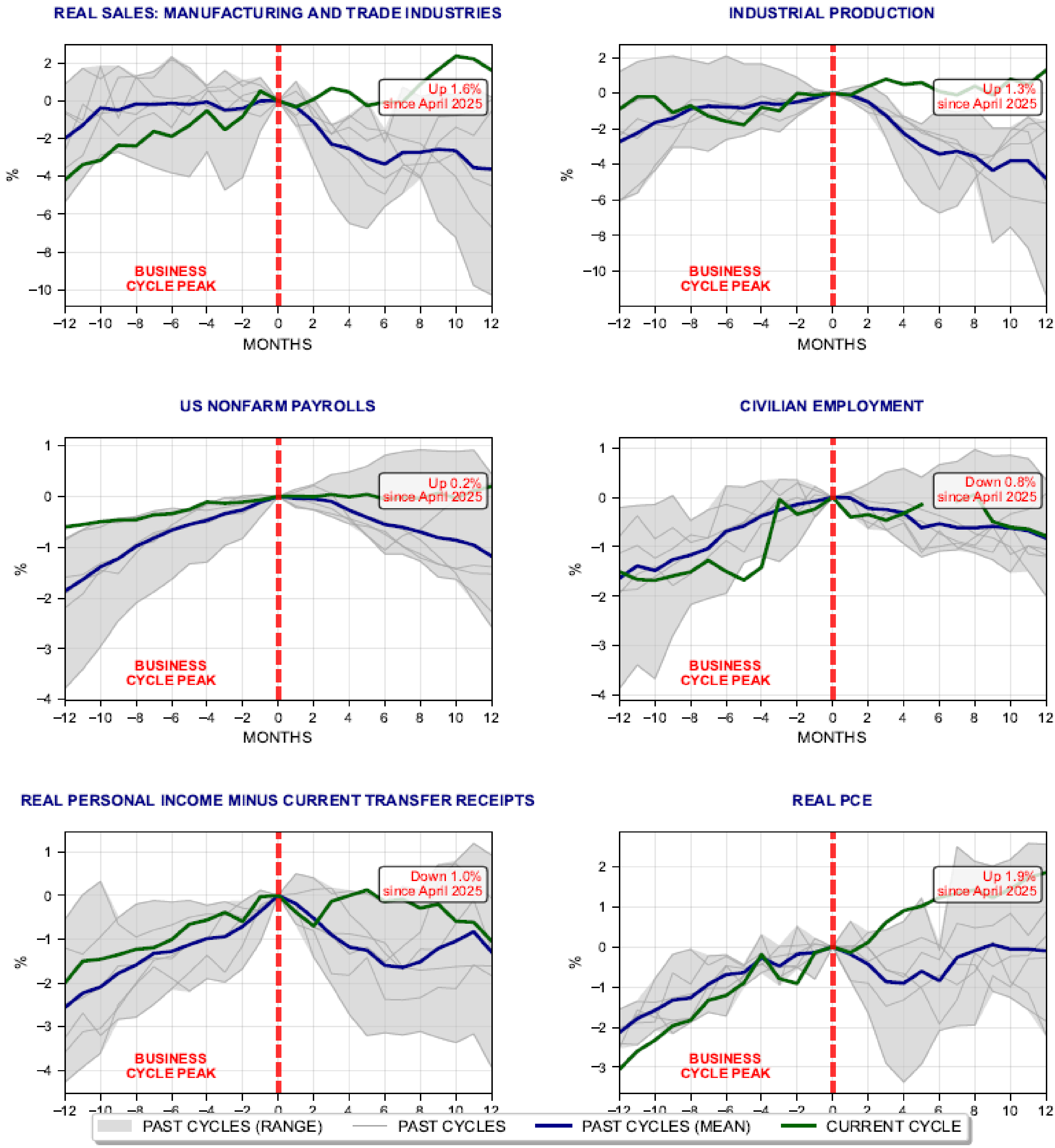


US Inflation Heatmap (6-Month Annualized)



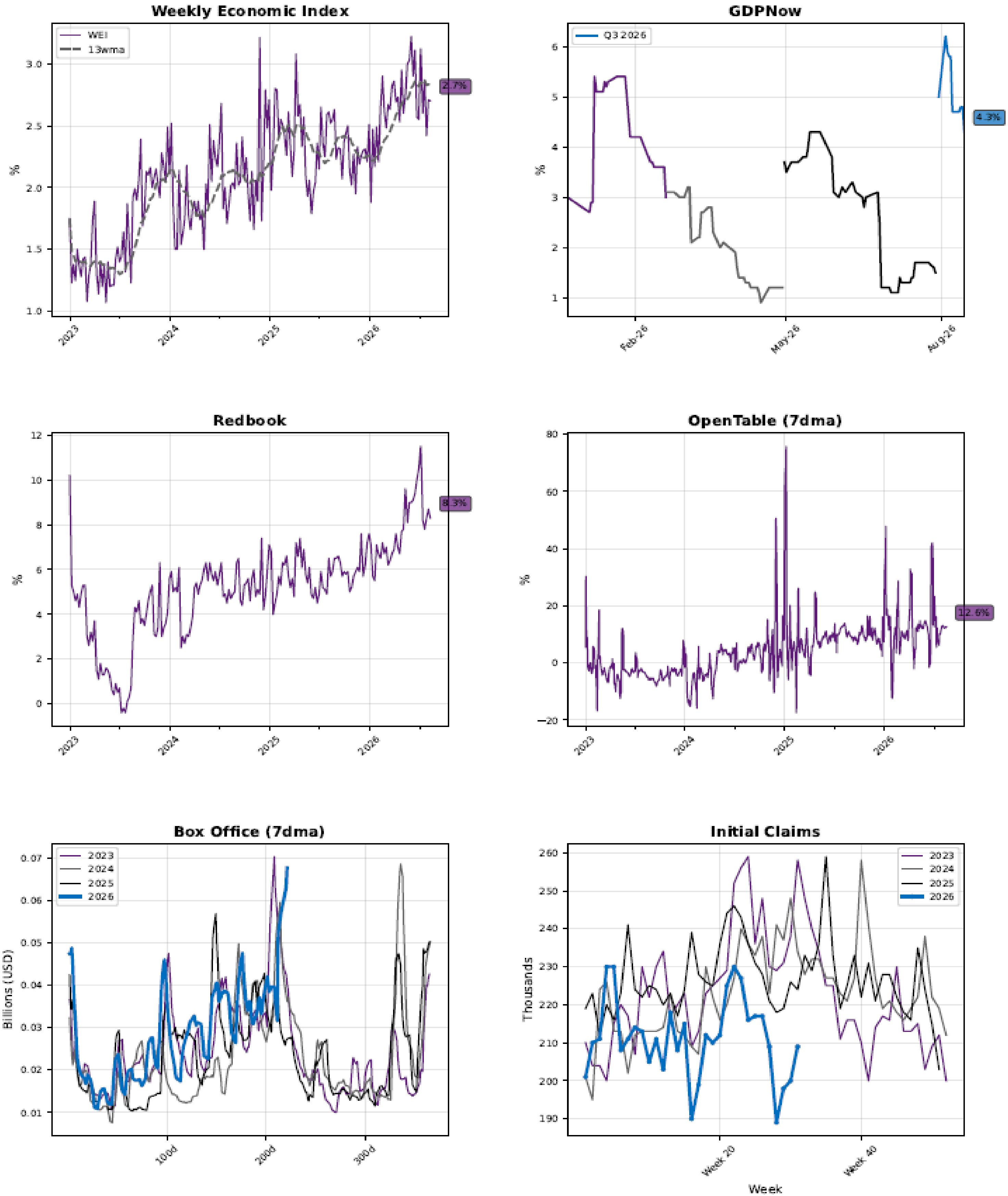
Note: The heatmap shows the distance of each US CPI component's 6-month annualized inflation rate from its historical average. The colour is white when a component's inflation rate is close to its average and is a varying shade of blue (red) when the rate is below (above) the average. Each inflation rate is standardized by subtracting its mean and dividing by its standard deviation, computed over 1996-2019. and We show full Nondurables (which includes food and energy components) alongside Durables, New vehicles, Used cars and trucks, and Apparel; the parent group itself excludes food and energy. Food away from home, Other personal services, and Tenants' & household insurance are published NSA by BLS and seasonally adjusted via X-13ARIMA-SEATS. Values in parentheses are CPI relative importance weights (parts per 100). Sources: BLS via Haver Analytics; RenMac calculations. Last observation: July 2026.

NBER RECESSION INDICATORS DASHBOARD



Past 7 cycles excluding Covid-19 period

High Frequency Economic Dashboard



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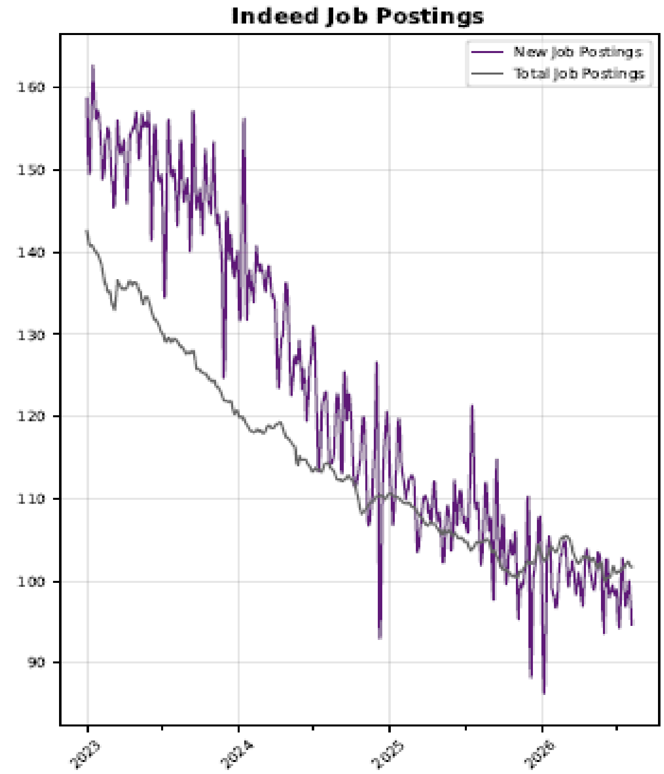

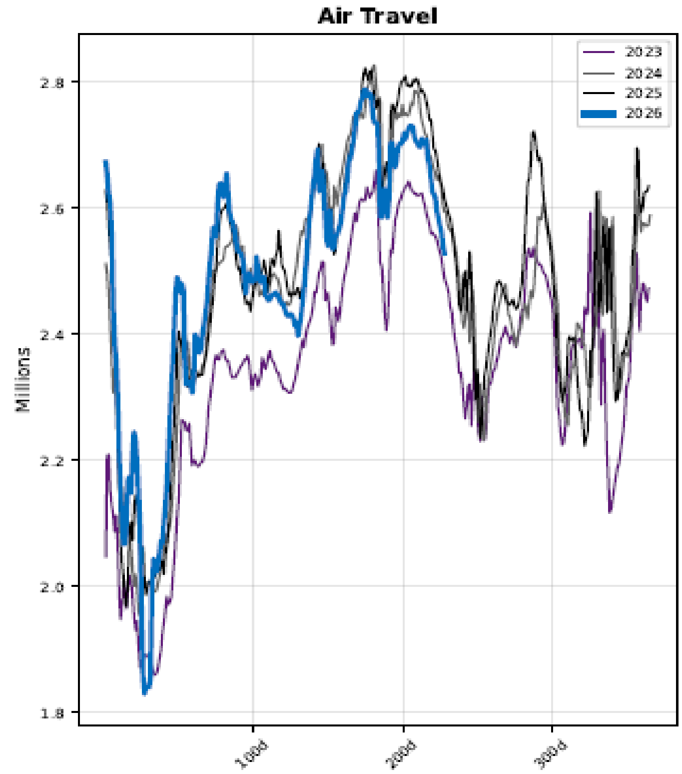

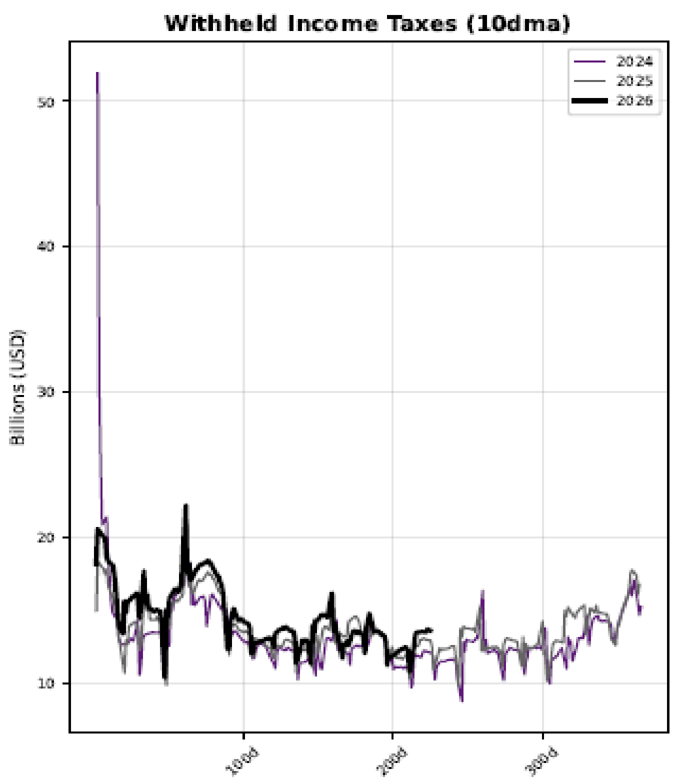

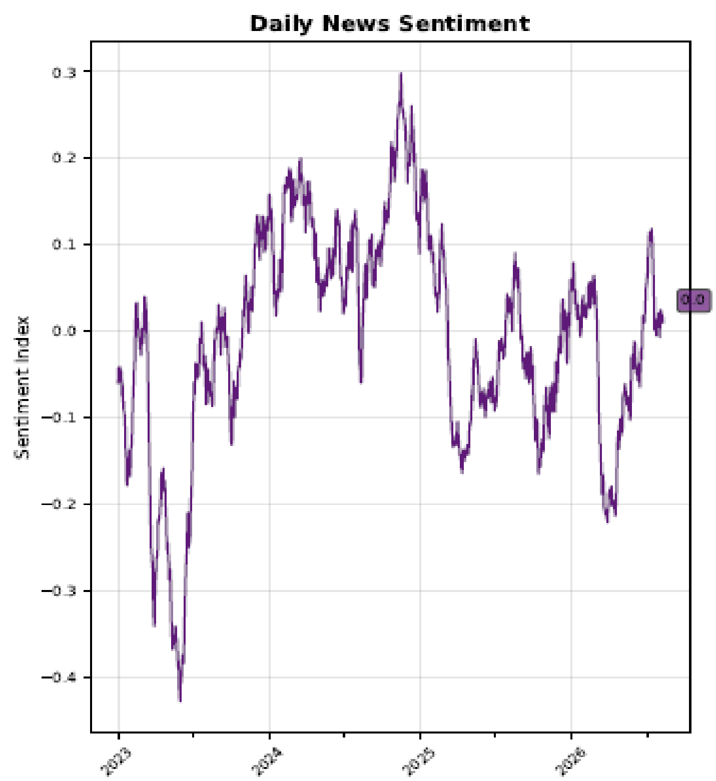

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